

## Message Text

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TRSE-00 SS-15 STR-04 OMB-01 CEA-01 L-03 H-01 CIAE-00  
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PASS TREASURY, CEA AND FEDERAL RESERVE

E.O. 11652: N/A  
TAGS: EFIN, OECD, ECON  
SUBJECT: FEB. 25 MEETING OF EPC'S TEMPORARY WORKING  
PARTY (TWP): OVERVIEW

REF: (A) STATE 41971, (B) CPE/TWP/A(77)1

1. SUMMARY. TWP CONCENTRATED ON BALANCE OF PAYMENTS  
AND ADJUSTMENT PROBLEMS AND PROSPECTS OF SMALLER OECD  
COUNTRIES. WITH EXCEPTION OF PORTUGAL, COUNTRIES  
EXPERIENCING SUBSTANTIAL BALANCE OF PAYMENTS DEFICITS  
ON CURRENT ACCOUNT INDICATED LITTLE CONCERN THAT  
EXTERNAL CONSTRAINTS WOULD, IN 1977: (A) FORCE THEM TO  
UNDERTAKE ADJUSTMENT OF THEIR DEFICITS AT A PACE WHICH  
WOULD REQUIRE ALTERATION OF THEIR DOMESTIC PRIORITIES  
BEYOND MEASURES ALREADY TAKEN OR PLANNED; AND/OR (B)  
IMPLY ANY DIFFICULTIES IN FINANCING DEFICITS OF PRO-  
JECTED SIZE. SOME NOTED THAT PRESENT RATE OF DEBT  
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ACCUMULATION WOULD BE UNMANAGEABLE IF CONTINUED OVER  
MEDIUM OR LONGER RUN. NORDICS (SWEDEN, DENMARK) AND,  
TO LESSER EXTENT, MEDITERRANEANS (SPAIN, GREECE, TURKEY)  
URGED FASTER GROWTH BY STRONG COUNTRIES IN ORDER TO  
REDUCE THEIR DEFICITS. FRG DEL ARGUED WITH SOME EFFEC-  
TIVENESS THAT PRESENTATIONS BY WEAKER COUNTRIES DID NOT  
PROVIDE CLEAR EVIDENCE THAT PICKUP OF FOREIGN DEMAND

WOULD CAUSE SIGNIFICANT DECREASE IN THEIR DEFICITS. SEVERAL OF THE SMALLER COUNTRIES MENTIONED DESIRABILITY OF EXPANDING OFFICIAL FINANCING FACILITIES. TWP ALSO TOOK UP FINANCIAL SUPPORT FUND, CIEC CONSIDERATIONS, AND STUDY OF EAST-WEST ECONOMIC RELATIONS VERY BRIEFLY UNDER OTHER BUSINESS. DETAILED REPORT ON PRESENTATIONS MADE BY DELEGATIONS OF COUNTRIES WHOSE BALANCE OF PAYMENTS SITUATION EXAMINED BY TWP AND ON TWP DISCUSSION OF ITS ROLE IN EAST-WEST WORK PROGRAM BEING TRANSMITTED IN SEPTELS. SEE PARA 9 RE CORRIDOR DISCUSSION OF ACCESS TO CAPITAL MARKETS. END SUMMARY.

1. TWP MET FEB. 25, WITH VAN YPERSELE (BELGIUM) DOING EFFECTIVE JOB IN CHAIR. SESSION DEVOTED TO BALANCE OF PAYMENTS SITUATION AND FINANCING PROSPECTS OF SMALLER OECD COUNTRIES UNDER TWP MANDATE TO KEEP THIS QUESTION UNDER REVIEW. GROUP CONCENTRATED ON DENMARK, FINLAND, GREECE, NEW ZEALAND, PORTUGAL, SPAIN AND TURKEY, WITH BRIEF PRESENTATIONS BY AUSTRIA, AUSTRALIA AND SWEDEN. DISCUSSION WAS ORGANIZED AROUND SIX QUESTIONS:

(1) CURRENT ACCOUNT DEFICIT (CAD) ESTIMATED FOR 1976 AND FORECAST FOR 1977 AS COMPARED WITH OECD SECRETARIAT'S FIGURES CONTAINED IN TABLE ON P. 2 OF CPE/TWP(77)1;

(2) EXPECTED TREND OF CAD IN 1978 AND 1979;

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(3) DETAILS OF CAPITAL FLOWS AND RESERVE USE IN FINANCING 1976 CAD;

(4) PROSPECTS FOR SAME IN 1977;

(5) ACCEPTABILITY OF RATE OF INCREASE OF DEBT IN 1974-1976 PERIOD AND OF PROSPECTIVE INCREASE IN 1977 RELATIVE TO SIZE OF CUMULATED DEBT, EXPORT EARNING CAPACITY, RESERVES, ETC.; AND

(6) POLICY MEASURES TAKEN OR CONTEMPLATED TO REDUCE DEFICIT, ANTICIPATED INCREASE IN EXPORTS, AND WHETHER IMPORT RESTRICTIONS CONTEMPLATED.

3. FRG DEL ADDED SEVENTH QUESTION: HOW MUCH WOULD CAD BE REDUCED THROUGH FURTHER EXPANSION IN STRONGER OECD COUNTRIES? SUBSEQUENTLY, HE OBJECTED TO ANY CONCLUSION WHICH INDICATED THAT INSUFFICIENCY OF EXTERNAL DEMAND

FROM LARGER COUNTRIES IS A KEY CAUSE OF CONTINUED

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DISPROPORTIONATE SHARE OF OVERALL OECD CURRENT DEFICIT  
ACCOUNTED FOR BY CERTAIN SMALLER COUNTRIES. HE POINTED  
OUT THAT IN VIRTUALLY ALL CASES COUNTRIES REVIEWED HAD  
CITED STRUCTURAL PROBLEMS SUCH AS POOR HARVESTS OR OIL  
PRICE INCREASE, HAD ADMITTED THE EXISTENCE OF EXCESS  
DEMAND, OR HAD CITED TRADE BARRIERS AS THE MOST SIGNIFI-  
CANT IMPACT ON THESE PARTICULAR COUNTRIES. AUSTRIAN  
REP (CITING VERY LARGE INCREASE IN EXPORTS IN 1976)  
AGREED. (US MADE PURELY FACTUAL OBSERVATION THAT TOTAL  
DEFICIT OF WEAKER COUNTRIES HAD REMAINED RELATIVELY  
CONSTANT BETWEEN 1975 AND 1976, WHILE CONJUNCTURAL  
SITUATION IN OECD AREA HAD CHANGED CONSIDERABLY.)  
SCANDINAVIAN COUNTRIES REACTED SHARPLY TO FRG ASSERTION,  
AND SWEDISH DEL EMPHASIZED THAT WHILE HIS COUNTRY IS  
PREPARED TO INCREASE DEBT RATHER THAN DEFLATE SHARPLY,  
IT WOULD PREFER TO SOLVE ITS PROBLEMS BY INCREASING  
EXPORTS. THEY ARGUED THAT IT WOULD BE GENERAL ENHANCE-  
MENT OF WORLD ECONOMIC CLIMATE WHICH WOULD BE BENEFICIAL  
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(AGREEING THAT ONE PERCENT INCREASE IN FRG GROWTH ALONE WOULD NOT ITSELF HAVE SUCH IMPACT), AND THAT STRONG COUNTRIES HAD COLLECTIVE RESPONSIBILITY FOR, AND ABILITY TO IMPROVE, STATE OF WORLD ECONOMY.

4. DANISH DEL (LOHSE) QUESTIONED RELEVANCE OF OCCASIONAL EXAMINATION IN TWP OF POSITIONS OF SMALLER OECD COUNTRIES. HE ADVOCATED INSTEAD EXAMINATION OF SOLUTIONS, SEEING TWO POSSIBILITIES: (A) STEPPED UP GROWTH BY STRONGER COUNTRIES; OR (B) ASSURANCE OF ADEQUATE FINANCING TO SMOOTH ADJUSTMENT PROCESS, WITHOUT "ONEROUS" IMF CONDITIONS. CHAIRMAN POINTED OUT NEED TO HAVE ADEQUATE DATA BEFORE PROCEEDING TO DRAW POLICY CONCLUSIONS.

5. US REP (KORP) TOOK OPPORTUNITY DURING DISCUSSION OF INDIVIDUAL COUNTRIES TO EMPHASIZE (PER REFTTEL) IMPORTANCE OF SMALLER COUNTRIES' INITIATING ADJUSTMENT AT A SUFFICIENTLY EARLY STAGE IN ORDER TO REDUCE DEFICITS AND PRESERVE CREDITWORTHINESS AND NOTED LIMITED ROLE FOR OFFICIAL FINANCING, ADDING, HOWEVER, THAT STRONG COUNTRIES RECOGNIZED THAT THEY HAD TO ENSURE THAT THEIR POLICIES ARE COMPATIBLE WITH ADJUSTMENT BY DEFICIT COUNTRIES. HE SUGGESTED THAT WEAKER COUNTRIES NEED TO REVIEW RELATIVE PRIORITY THEY ARE GIVING TO REDUCING CAD AMONG THEIR ECONOMIC POLICY OBJECTIVES.

6. SEPTTEL PROVIDES DETAILED REPORT OF DATA AND FORECASTS PRESENTED BY ABOVE-ENUMERATED TEN COUNTRIES. WHAT FOLLOWS IS CHAIRMAN'S SUMMING UP (WHICH PRECEDED MUCH OF DEBATE ON FRG POSITION RECORDED IN PARA 3 ABOVE) OF TWP DISCUSSION. PURPOSE OF SUMMATION WAS ALSO TO SPELL OUT CONCLUSIONS RZQBLE WOULD REPORT TO ECONOMIC POLICY COMMITTEE ON MARCH 1 (AND TO WP3 ON FEB. 28):

(A) MAGNITUDES OF DEFICITS. IN 1976, CAD DECLINED

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ONLY IN CASES OF FINLAND AND NEW ZEALAND. FOR 1977, DECLINES ANTICIPATED BY DENMARK, FINLAND, NEW ZEALAND, PORTUGAL AND TURKEY; LITTLE CHANGE FOR SPAIN AND GREECE; SUBSTANTIAL DETERIORATION FOR SWEDEN.

(B) CAUSES OF DEFICITS. THERE IS A MIXTURE OF DOMESTIC AND EXTERNAL CAUSES. ON DOMESTIC SIDE, DISTINCTION CAN BE MADE BETWEEN SUPPLY CONSTRAINTS (E.G.,

PORTUGAL AND TO SOME EXTENT SPAIN) AND EXCESS DEMAND  
CONDITIONS (PARTICULARLY DENMARK AND SWEDEN--SWEDISH  
DEL NOT AGREEING WITH BEING SO TARRERD). EXTERNAL FAC-  
TORS ALSO VARY FROM COUNTRY TO COUNTRY: INSUFFICIENT  
DEMAND FOR EXPORTS; DROP IN INVISIBLES EARNINGS (TOUR-  
ISM) AND WORKERS' REMITTANCES (MAINLY GREECE AND TURKEY  
, BUT ALSO PORTUGAL AND SPAIN); AND TRADE  
BARRIERS PERCEIVED (NEW ZEALAND AND AUSTRALIA).

(C) PROSPECTS FOR ADJUSTMENT. RELATIVE REDUCTION  
OF IMPORTS VIA DOMESTIC ADJUSTMENT FORESEEN BY SOME  
COUNTRIES (DENMARK, FINLAND, PORTUGAL, NEW ZEALAND),  
ALTHOUGH FOR LATTER THREE SCOPE FOR FURTHER REDUCTION  
IS LIMITED. BUT FOR OTHERS(SUCH AS SPAIN, SWEDEN AND  
TURKEY) EITHER INCREASE IN IMPORTS IS SEEN AS NECESSARY  
AND UNAVOIDABLE OR GREATER INCREASE IN EXPORTS THAN  
IMPORTS IS EXPECTED.

(D) FINANCING IN 1977. ONLY PORTUGAL SUGGESTED  
LIKELY FINANCING PROBLEMS THIS YEAR. TURKEY, HOWEVER,  
IS VERY CONCERNED THAT IT OBTAIN SATISFACTORY TERMS AND  
LONGER MATURITIES OF ITS BORROWINGS (FEELING THAT SOME

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INITIATIVE SHOULD BE TAKEN BY STRONGER COUNTRIES TO ENSURE SUCH A DEVELOPMENT BY EASING ACCESS TO CAPITAL MARKETS). THE REMAINING COUNTRIES SEEMED RELATIVELY RELAXED; HOWEVER, SPAIN IS PERHAPS BETWEEN THE TWO EXTREMES.

(E) FUTURE POLICY STEPS OR REQUIREMENTS. FIRST, ALL WEAK COUNTRIES RECOGNIZE THE NEED TO FOLLOW RELATIVELY RESTRICTIVE DOMESTIC POLICIES ALTHOUGH THERE ARE POLITICAL CONSTRAINTS TO WHAT CAN BE DONE (THIS IS PARTICULARLY THE CASE OF PORTUGAL AND SPAIN). SECOND, MOST OF THESE COUNTRIES STRESSED THE NEED FOR MORE RAPID GROWTH BY STRONG COUNTRIES, BUT THERE ARE VARIATIONS IN THE DEGREE OF IMPORTANCE THEY ATTACHED TO THIS FACTOR AND THE CHANNEL THROUGH WHICH THEY SAW SUCH INCREASED STIMULUS REDUCING THEIR DEFICITS. THIRD, THERE WAS CONSIDERABLE SUPPORT FOR IMPROVEMENT OF OFFICIAL FINANCING FACILITIES. FINALLY, ONLY PORTUGAL SAW ANY LIKELIMITED OFFICIAL USE

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HOOD OF NEED TO RESORT TO IMPORT RESTRICTIONS.

7. FINANCIAL SUPPORT FUND. US DEL DESCRIBED CURRENT STATUS OF NEW ADMINISTRATION'S THINKING ALONG LINES OF REFTEL. THERE WERE NO COMMENTS FROM OTHER COUNTRIES.

8. CIEC. CHAIRMAN SUGGESTED TWP BE READY TO REACT BUT ONLY IF ITS MEMBERS SO WISH AND WHEN A SCHEDULE FOR CIEC DISCUSSIONS HAS BEEN DETERMINED. US DEL SUPPORTED CHAIRMAN'S SUGGESTION, STATING THAT TWP SHOULD CONTINUE TO DEAL WITH THE FINANCIAL AND INVESTMENT ISSUES AS NECESSARY IN CIEC CONTEXT. THERE WAS NO FURTHER DISCUSSION.

9. LDC ACCESS TO OECD CAPITAL MARKETS. PER REFTEL US DEL (RYAN) APPROACHED EC AND JAPANESE RE POSSIBILITY OF FURTHER MOVEMENT ON LDC ACCESS TO CAPITAL MARKETS IN CIEC CONTEXT. JAPANESE (MIYAZAKI) SAID GOJ IS "STILL THINKING" ON THIS POINT. EC REPS TOLD RYAN THAT FRANCE HAS RULED OUT ANY OPENING OF ITS MARKET AND THAT CONSEQUENTLY NO OTHER EC COUNTRY WAS WILLING TO RELAX ANY EXISTING BARRIERS. SWISS TOOK EXPLICIT POSITION AT NOVEMBER MEETING OF COMMITTEE ON FINANCIAL MARKETS (SEE PARA 7 OF OECD 33477)--VIZ., PREPARED TO CONSIDER EXEMPTION OF LDC ISSUES FROM CEILINGS MAINTAINED ON FOREIGN BOND ISSUES, BUT NOT PREPARED TO ENDORSE IMF/IBRD DEVELOPMENT COMMITTEE'S RECOMMENDATIONS THAT "STRONG CURRENCY" COUNTRIES WHICH MAINTAIN RESTRICTIONS ON INTERNATIONAL ISSUES DENOMINATED IN THEIR CURRENCIES GIVE PREFERENCE TO LDC BORROWERS.

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## Message Attributes

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